Bethlehem Copper Corporation Ltd.

13th Annual Report

For Year Ended February 29th, 1968

DIRECTORS

RICHARD F. DOOLEY, Chicago	President of Favor Ruhl & Watson Co.
HERMAN H. HUESTIS, Vancouver	Former President of the Company, now retired and engaged in farming.
KENJIRO KAWAKAMI, Tokyo	President of Sumitomo Metal Mining Co. Ltd.
JOHN A. McLALLEN, Vancouver	Managing Director of Capilano Timber Co. Ltd.
WILLIAM H. McLALLEN, SR., Vancouver	President of Capilano Timber Co. Ltd.
HUGH A. MARTIN, Vancouver	President of Western Construction & Engineering Research Ltd.
YOSHIYUKI MARUO, Vancouver	Vice-President of Sumitomo Metal Mining Company of Canada Ltd.
KUNIO OHTA, Tokyo	Managing Director and General Manager of a division of Sumitomo Shoji Kaisha Ltd.
PATRICK M. REYNOLDS, Vancouver	President and Managing Director of Bethlehem Copper Corporation Ltd.

OFFICERS

JOHN A. McLALLEN	Chairman of the Board
PATRICK M. REYNOLDS	President and Managing Director
RICHARD F. DOOLEY	Vice-President
YOSHIYUKI MARUO	Vice-President
KEITH E. STEEVES, C.A.	Secretary-Treasurer

HONORARY POSITION

HERMAN H. HUESTIS	Honorary Vice-Chairman

EXCHANGE LISTINGS

Shares of this Company are listed on the
Vancouver, Toronto and
Canadian Stock Exchanges

REGISTRAR

Guaranty Trust Company of Canada
Vancouver

TRANSFER AGENTS

Guaranty Trust Company of Canada
Vancouver and Toronto, Canada

Registrar and Transfer Company
Jersey City, New Jersey, U.S.A.

BANK

Bank of Montreal
Vancouver and Ashcroft, B.C.

AUDITORS

Arthur Andersen & Co.
Vancouver

SOLICITORS

Lawrence & Shaw
Vancouver

OFFICES

Head Office: 1818 - 355 Burrard Street, Vancouver 1, B.C.
Mine Office: P.O. Box 520, Ashcroft, B.C.

COVER PHOTO

Bethlehem mill and service buildings,
Highland Valley, B.C.

Annual Meeting

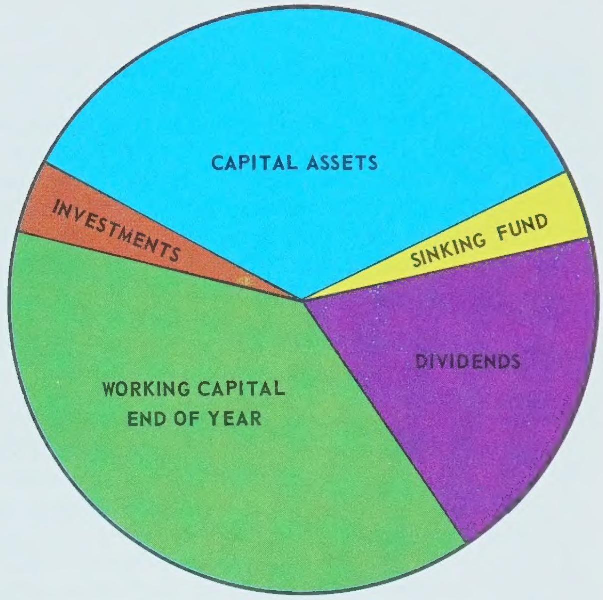
The Annual General Meeting of Bethlehem Copper Corporation Ltd. will be held on Thursday, June 20th, 1968 at 10:00 A.M. in the Vancouver Island Room, Hotel Vancouver, 900 West Georgia Street, Vancouver, Canada.

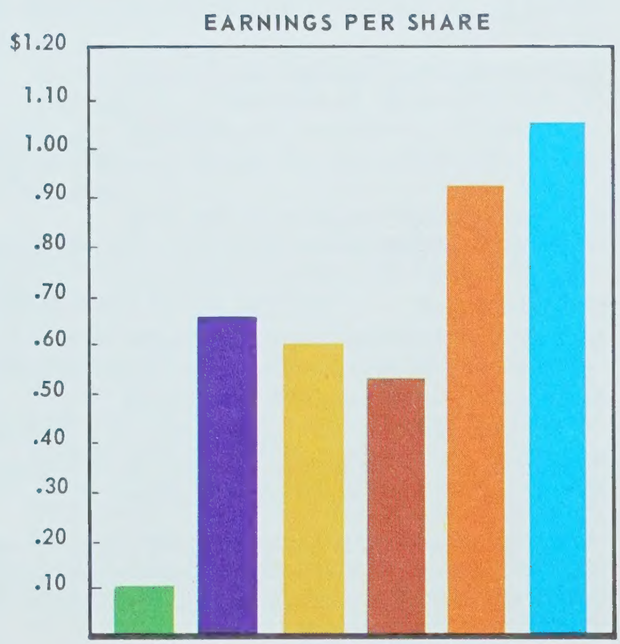
WERE

The Year at a Glance

	1968	1967
Net income	$ 5,506,661	$ 4,791,744
Income per share	$ 1.05	92c
Dividends paid	$ 2,363,125	$ 2,348,225
Dividends per share	45c	45c
Tons milled	4,136,167	3,279,073
Revenue per ton milled	$ 4.80	$ 4.43
Direct costs per ton milled	$ 2.29	$ 2.32
Pounds of copper produced	40,143,527	32,255,986
Shares issued	5,261,250	5,222,000
Proven ore reserves (tons)	70,060,772	38,946,967
Employees	304	155
Total company payroll	$ 1,676,730	$ 991,736
Capital expenditures	$ 4,261,027	$ 1,321,148
Working capital	$ 4,577,688	$ 3,704,370

APPLIED TO





Report to Shareholders

EARNINGS AND TAXES

Mine operating profit before allowance for depreciation and income tax in the fiscal year ended February 29th, 1968 reached a record high of $10,408,000 which was $3,475,000 more than in the previous year. For the first time since production commenced in 1962, the company was obliged to make provision for income and mining taxes at full rates without the benefit of preproduction write-offs. The net after-tax profit amounted to $5,506,661.

In determining profit for income tax purposes, capital cost was calculated at maximum allowable rates which exceeded the depreciation provision used in arriving at net earnings for statement purposes. It was considered desirable to record a reserve for the additional income taxes which will be payable in the future when depreciation provided in the financial statements exceeds the capital cost allowances available for taxable income calculations. The amount so reserved as deferred income tax for the year was $847,000. The records for the fiscal year ended February 28th, 1967 have been adjusted to reflect a similar provision amounting to $920,500, which had the effect of reducing the after-tax profit for that year to 92c per share compared to $1.05 for the fiscal year just ended.

Your company is becoming a major producer of tax revenue at both senior and junior levels of Government. An analysis of direct tax generated by our company during the fiscal year is shown below:

(a) Income taxes shared by Federal and Provincial Governments (not including provision for deferred income tax)	$2,218,000
Per share	42c
(b) Mining taxes payable to the Provincial Government	$ 600,000
Per share	12c
(c) Local taxes	$ 116,500
(d) Provincial taxes paid on equipment and supply purchases	$ 277,500
(e) Income taxes remitted on behalf of employees	$ 247,000

Items (a) and (b) together exceed the dividend of 45c per share paid to shareholders.

Our product is all exported and paid for in United States dollars. This provides a substantial contribution to the prosperity of Canada and to its balance of payments.

DIVIDENDS

The regular quarterly dividend of 10c per share was supplemented by an extra dividend of 5c per share paid in January. Dividends paid during the year amounted to $2,363,125. Total dividends paid from the time production commenced in late 1962 until March 31st, 1968 amounted to $7,315,100.

FUNDED DEBT

In 1965, a $4,000,000 ten year convertible sinking fund debenture was issued to provide funds for plant expansion purposes. Due to the favourable earnings of the past two years, sufficient funds were generated to justify the Directors calling the debentures for redemption on April 5th, 1968. Of this amount, $7,000 was converted to shares at $8.00 per share and the balance were redeemed.

HIGHLAND VALLEY PROPERTY

(217 mineral claims of which 56 are Crown-granted)

The plant stabilization program commenced in the Fall of 1966 was completed in November 1967. While our objective was to reach a minimum average daily treatment rate of 12,000 tons, it has become evident that throughput will actually average about 14,000 tons per day.

ORE RESERVES

A year ago we reported proven ore reserves of approximately 39,000,000 tons. Diamond drilling during the year was concentrated on the Iona and Huestis zones to prove up and prepare them for mining. The proven ore reserves now total approximately 70,000,000 tons, sufficient to run our mill at its present capacity for 14 years. In the coming year, an extensive exploration program is planned on the unexplored and partially explored zones with the object of adding to the proven reserves of ore.

MINING

Up until October 31st, 1967, our mining of ore and delivery to the plant was done under contract. On November 1st, we began doing this work with our own crew and new equipment. Our experience in the last few months indicates that substantial savings will be effected by this change.

Stripping ratio for the year, waste to ore, was 1.8 to 1. The waste to ore ratio for the ore remaining in the Jersey pit is 0.4 to 1. It is planned to continue the high stripping rate until mid-1969 by which time most of the Jersey pit waste will be removed. Surplus mining equipment will then be utilized in a three year development program of the Huestis zone which will be the next zone to be mined.

TAILINGS DISPOSAL

The extensive development of proven ore reserves in the last year and the strong possibility of developing additional reserves in future years made it necessary to plan ahead at least 15 years for the disposal of mill tailings. To follow this program in the most economical manner, it was necessary to acquire six mineral claims which were owned by Valley Copper Mines Ltd. to the north-east and adjacent to Bethlehem's property. We negotiated a satisfactory arrangement with Cominco Ltd., the operators of Valley Copper Mines Ltd., whereby Bethlehem acquired the claims it needed for tailings disposal in exchange for an equal number of mineral claims on the south-west fringe of the Bethlehem property. In order to protect both parties in case ore is developed on the mineral claims exchanged, each party retained a royalty of 2½% of the net smelter return with respect to mineral which may be produced from those claims at any time in the future.

HOUSING

Bethlehem now employs approximately 300 men. Neighboring properties are being explored by other companies and this has resulted in a scarcity of housing accommodation in the Village of Ashcroft. In order to maintain working and living environment that will attract and retain competent people, the company constructed a 40-suite apartment block and sixteen 3 and 4 bedroom townhouses in Ashcroft. It is very probable that additional accommodation will have to be constructed next year.

SHARE CAPITAL

The uncommitted shares remaining in the treasury amount to 692,125 shares. Your company is in excellent financial circumstances but it must always be remembered that a mine is a wasting asset. If the company is to grow it will be necessary to acquire either through our exploration programs or through purchase other properties if they present themselves in the future. While the Directors have no specific plans at this time, they deem it advisable to increase the share capital of the company from 6,000,000 to 10,000,000 shares. You will be asked to vote upon this proposal at the shareholders meeting.

WORKING CAPITAL

The working capital at February 29th, 1968 amounted to $4,577,688. The ratio of current assets to current liabilities is 1.7 to 1.

EXPLORATION

Two diamond drills are employed on a continuous basis in proving up and searching for additional ore on our Highland Valley property. In April this year, a rotary drill was added. The plan is to probe for mineralized targets with the rotary drill, which is comparatively inexpensive to operate, and to follow up by diamond drilling those areas which indicate the possible presence of ore.

Other properties held for exploration purposes are:

(1) 8 coal licences in the Morice River area, approximately 30 miles due south of Smithers, British Columbia.
An active exploration program on these licences is planned for the 1968 season.

(2) Atlin area, Laverdiere group
13 mineral claims of which 3 are Crown-granted.

(3) Mamit Lake area
23 mineral claims of which 8 are Crown-granted.

Bethlehem is a member of two syndicates in both of which Trans Canada Oils Ltd. has a 25% interest and is the operator:

(a) A uranium prospect in the Beaverlodge area of Saskatchewan. Other members are Sunlite Oil Co. Ltd., Arctic Gold and Silver Mines Ltd., and Ponderay Explorations Ltd. Bethlehem's interest in this syndicate is 25%.

(b) Various groups of claims in the Northwest Territories containing showings of copper, gold, silver and nickel. Other members of the syndicate are Sunlite Oil Co. Ltd., Moresby Mines Ltd., Coin Canyon Mines Ltd., and R. E. Dale. Bethlehem's interest is 15%.

BETHEX EXPLORATIONS LTD. (N.P.L.)

Bethex is controlled and financed by Bethlehem. Its principal projects for 1968 are:

(i) The exploration for copper on 250 mineral claims owned by Norcan Mines Ltd. (N.P.L.) near Smithers, British Columbia, in which Bethex may earn a 70% interest.

(ii) The exploration for copper of a group of mineral claims in the Taseko Lake area of British Columbia, staked and wholly owned by Bethex.

(iii) A general exploration program in a specified area of British Columbia in partnership with Siscoe Metals of Ontario Limited, with each of the companies sharing one-half the cost.

ANNUAL MEETING

In the past two years the annual meeting of shareholders was held at the mine site with a large number of shareholders in attendance. This year, in order to give other shareholders an opportunity to attend, the meeting will be held in Vancouver.

PERSONNEL

The operations at the mine made great strides in both efficiency and profitability under the able guidance of Mr. Thomas P. Liss, B.Sc., General Manager of our Highland Valley operations.

The Directors express their thanks to Department Managers and to all employees for their loyalty and for their part in assuring the continued success and progress of our company.

JOHN A. McLALLEN
Chairman

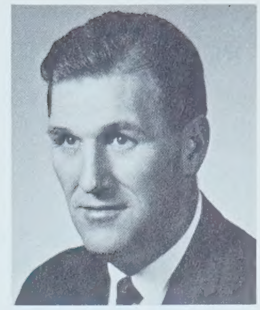
PATRICK M. REYNOLDS
President

May 7th, 1968.

TRUCKS, SHOVELS AND DRILL READY TO MOVE INTO THE JERSEY PIT ON NOVEMBER 1st, 1967

General Manager's Report

For the Fiscal Year March 1st, 1967 to February 29th, 1968



THOMAS P. LISS

The Chairman and Directors
Bethlehem Copper Corporation Ltd.
Suite 1818 - 355 Burrard Street
Vancouver 1, B.C.

I am pleased to submit herewith a report on the operations of our mine and mill in Highland Valley for the fiscal year 1967-68. The year was one of marked activity and major growth.

PRODUCTION SUMMARY

Ore:	From Jersey pit	3,280,800 tons
	From marginal stockpile	1,009,200 tons
Waste:	From Jersey pit	6,035,000 tons
Copper produced		40,143,527 lbs.

The pounds of copper produced exceeded that of the previous year by 24½%.

PRODUCTION COSTS

Direct production costs including transportation of concentrates and marketing, but exclusive of smelting charges, amounted to $2.29 per ton of ore milled. A depreciation charge of 20c per ton and an exploration and development expense of 9c per ton are additional.

In November, we completed the installation of new mill equipment which added to the capacity and to the efficiency of our plant. At the same time, we commenced mining with our own equipment where previously this work had been done by a contractor. As a result, we forecast a significant reduction in direct operating costs in the coming year.

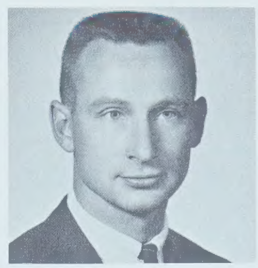
PRODUCTION REVENUE

The average copper price for the year based on the quoted price for the month of production was 49c U.S. per pound. Before provision for depreciation, exploration, interest and income taxes, the operating profit amounted to $10,408,266, an increase of $3,474,598 over that of the previous year.

CAPITAL EXPENDITURES

Capital expenditures made during the year amounting to $4,261,000 involved plant stabilization, an increase of plant capacity to 14,000 tons per day, and the purchase of mining equipment. This figure does not include the value of fifteen 50-ton ore trucks which have been leased on a 3-year basis with the right to purchase at the end of the lease contract.

MINING AND HIGHLAND VALLEY EXPLORATION DEPARTMENT



Manager
H. G. EWANCHUK
B.Sc., P.Eng., P.Geol.
was awarded the Leonard Medal by the Engineering Institute of Canada for 1967 for a technical paper prepared by him entitled "Grade Control at Bethlehem Copper".

During the year we followed a mining plan which emphasized accelerated waste removal from the Jersey pit. The stripping ratio was 1.8 to 1.

As at February 29th, 1968, at a cut-off grade of 0.35% Cu., 33,255,672 tons of ore grading 0.60% Cu. and 12,914,898 tons of waste remain to be mined from the Jersey ore body under the present pit design. Additional ore is known to exist at depth and it is planned at a later date to diamond drill from the floor of the pit to probe the extent of the deposit below that level.

On November 1st, 1967, transition from mining contractor to Bethlehem doing its own mining was accomplished with a minimum of interruption. Expense to date indicates a pre-tax saving of approximately 15c per ton of material moved after providing for depreciation based on the estimated life of equipment. Ore and waste to be moved in the next few years will be approximately 15,000,000 tons per year and, therefore, the capital expenditure made in the changeover is justified by the anticipated savings.

EXPLORATION AND DEVELOPMENT

Most of the exploration during the year was directed towards defining the limits of the Huestis and Iona ore bodies. On the Huestis zone, 10,500 feet of diamond drilling was done and the proven ore at the end of the fiscal year was estimated at 25,000,000 tons grading 0.65% Cu. with a 1 to 1 stripping ratio. The ore body is not

defined towards the west and diamond drilling is continuing.

On the Iona zone, 15,200 feet of diamond drilling was done and the limits of the ore body are defined. Mineable ore reserves are estimated at 10,235,000 tons grading 0.5% Cu. at a cut-off grade of 0.35% Cu. and a waste to ore ratio of 1.2 to 1.

During the coming year, it is planned to explore other known zones having the potential of containing additional ore reserves.

The total proven ore reserves at the property, including ore remaining in the East Jersey zone, at February 29th, 1968 at a cut-off grade of 0.35% Cu. were 70,060,772 tons grading 0.60% Cu. with an average waste to ore ratio of 0.73 to 1.

PLANT PRODUCTION AND METALLURGICAL CONTROL DEPARTMENT

Manager
C. W. OVERTON
B.A. (Hon. Chem.)

A record number of tons were milled during the year and this was achieved even though the plant was continuously disrupted by extensive new construction and innovations directed toward plant stabilization. Increased daily throughput now averages approximately 14,000 tons per day.

Recoveries in the mill were improved from a low in the first quarter of the year of 79% to a rate of 85% in the fourth quarter.

Copper concentrate grade increased during the year from 32.7% Cu. in the first quarter to 35.2% Cu. in the final quarter.

During the year, Mr. J. W. Smith joined our organization in the capacity of Metallurgical Coordinator. He has had extensive experience in mill production and metallurgical control.

PROPERTY ENGINEERING DEPARTMENT

Manager
D. C. STEVENS
A.S.M.B.

Responsibility of this department encompasses planning and supervision of design, construction projects, maintenance of service facilities, planning, supervision and maintenance of housing facilities, and planning and supervision of safety and industrial programs.

During the year, Mr. W. Dudas was appointed Chief Safety and Industrial Engineer. Training plans have been set up, safety incentive programs have been established and the company's safety policy and rules have been outlined in book form to be distributed to all of our employees.

ADMINISTRATION

Manager
J. MAZURKEWICH

Accounting, purchasing, warehousing, personnel and labour matters come under this department. During the past year, the International Brotherhood of Operating Engineers, Local 115, and the Tunnel and Rockworkers, Local 168, commonly known as the Two Pac, were certified as the official bargaining representatives for Bethlehem's hourly employees. The labour contract between the Union and the company is in force until June 30th, 1969.

CONSULTANTS

To aid our staff with the solution of problems encountered in our operation, we employ the services of independent consultants. These include Mr. R. M. Belliveau, of Long Beach, California, as mining consultant; Mr. L. H. Lange of Salt Lake City, Utah, as our mill production and metallurgical consultant, and Mr. J. David Lowell

of Tucson, Arizona, assists with the exploration and development program. I wish to take this opportunity to thank these gentlemen for the valuable service they render to our company.

FORECAST FOR FISCAL YEAR 1968-69

We have set as our goal for next year the milling of 5,000,000 tons of ore and the production of 50,000,000 pounds of copper and the removal of approximately 9,000,000 tons of waste. Operating costs will be carefully screened during the year and capital expenditures will be confined for the most part to service facilities and possibly adding some additional employee housing.

Respectfully submitted,

Thomas P. Liss

THOMAS P. LISS, B.Sc.
General Manager
Highland Valley Operations

April 30th, 1968.

NEW MINING EQUIPMENT IN OPERATION - NOVEMBER 1st, 1967

ACCOUNTING OFFICE

TOWNHOUSES FOR EMPLOYEES
IN VILLAGE OF ASHCROFT

LABORATORY

ENTRANCE TO BETHLEHEM PROPERTY

APARTMENT HOUSES FOR EMPLOYEES
IN VILLAGE OF ASHCROFT

MINE ENGINEERING OFFICE

BETHLEHEM COPPER CORPORATION LTD.

Assets (Note 1)

	1968	1967
CURRENT ASSETS:		
Cash and short-term deposits	$ 7,035,232	$ 4,054,969
Accounts receivable	1,003,382	193,374
Inventories—		
Concentrates, at estimated net realizable value	1,510,245	1,589,745
Broken ore, at cost less future handling expense	—	247,149
Materials and supplies, at average cost	1,201,166	890,182
Prepaid expenses	107,888	98,466
TOTAL CURRENT ASSETS	$10,857,913	$ 7,073,885
INVESTMENTS, at cost (Note 2)	$ 1,093,022	$ 648,761
CAPITAL ASSETS, at cost:		
Buildings, equipment and roads	$14,516,450	$10,475,960
Less—Accumulated depreciation	1,975,049	1,260,122
	$12,541,401	$ 9,215,838
Mineral claims	145,988	142,871
Land	98,077	57,077
	$12,785,466	$ 9,415,786
UNAMORTIZED DEBENTURE DISCOUNT (Note 1)	$ 153,403	$ 188,833
	$24,889,804	$17,327,265

On behalf of the Board:

J. A. McLALLEN, Director

P. M. REYNOLDS, Director

The accompanying notes to financial statements are an integral part of this balance sheet.

Balance Sheet as at February 29, 1968

(WITH COMPARATIVE FIGURES AS AT FEBRUARY 28, 1967)

Liabilities and Shareholders' Equity

	1968	1967
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities.	$ 1,763,740	$ 2,208,490
Dividends payable	526,125	522,200
Income taxes payable	3,620,750	638,825
Principal payments on long-term liabilities due within one year	369,610	—
TOTAL CURRENT LIABILITIES (Note 1)	$ 6,280,225	$ 3,369,515
LONG-TERM LIABILITIES (Note 1)	$ 4,444,793	$ 4,000,000
DEFERRED INCOME AND MINING TAXES (Note 3)	$ 1,767,500	$ 920,500
SHAREHOLDERS' EQUITY:		
Share capital— Common shares, 50c par value; authorized, 6,000,000 shares; outstanding, 5,261,250 shares in 1968 and 5,222,000 shares in 1967 (Note 4)	$ 2,630,625	$ 2,611,000
Contributed surplus	1,905,625	1,708,750
Retained earnings	7,861,036	4,717,500
	$12,397,286	$ 9,037,250
	$24,889,804	$17,327,265

COMMITMENTS (Note 7)

Statement of Income and Retained Earnings

FOR THE YEAR ENDED FEBRUARY 29, 1968

(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED FEBRUARY 28, 1967)

	1968	1967
Concentrate revenue	$19,871,214	$14,539,134
Production, administration, transportation and marketing costs	9,462,988	7,605,506
	$10,408,226	$ 6,933,628
Investment income	256,657	163,315
	$10,664,883	$ 7,096,943
Depreciation	$ 841,605	$ 483,204
Exploration	390,760	134,222
Interest	229,777	240,273
Debenture discount and premiums	31,080	22,000
	$ 1,493,222	$ 879,699
INCOME BEFORE INCOME AND MINING TAXES	$ 9,171,661	$ 6,217,244
Provision for income and mining taxes (Note 3):		
Current	$ 2,818,000	$ 505,000
Deferred	847,000	920,500
Amount calculated for comparison purposes but not payable due to preproduction expense written off for tax purposes	—	1,080,000
	$ 3,665,000	$ 2,505,500
NET INCOME	$ 5,506,661	$ 3,711,744
Income taxes saved by writing off preproduction expense for tax purposes	—	1,080,000
Preproduction expense amortized	—	(3,285,503)
Dividends	(2,363,125)	(2,348,225)
Retained earnings at beginning of year	4,717,500	5,559,484
RETAINED EARNINGS AT END OF YEAR	$ 7,861,036	$ 4,717,500

The accompanying notes to financial statements are an integral part of this statement.

Statement of Contributed Surplus

FOR THE YEAR ENDED FEBRUARY 29, 1968
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED FEBRUARY 28, 1967)

	1968	1967
BALANCE AT BEGINNING OF YEAR	$ 1,708,750	$ 1,667,500
Premium on sale of shares	195,000	41,250
Premium on conversion of 6% sinking fund debentures into common shares	1,875	—
BALANCE AT END OF YEAR	$ 1,905,625	$ 1,708,750

The accompanying notes to financial statements are an integral part of this statement.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders,
Bethlehem Copper Corporation Ltd.:

We have examined the balance sheet of BETHLEHEM COPPER CORPORATION LTD. (a British Columbia corporation) as of February 29, 1968, and the related statements of income and retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and retained earnings, contributed surplus and source and application of funds present fairly the financial position of Bethlehem Copper Corporation Ltd. as of February 29, 1968, and the results of its operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in method of accounting for income taxes referred to in Note 3 to the financial statements.

Vancouver, Canada.
April 11, 1968.

ARTHUR ANDERSEN & CO.

Statement of Source and Application of Funds

FOR THE YEAR ENDED FEBRUARY 29, 1968

(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED FEBRUARY 28, 1967)

	1968	1967
SOURCE OF FUNDS:		
Operations—		
Net income	$ 5,506,661	$ 3,711,744
Add—Expenses not requiring an outlay of funds—		
Depreciation	841,605	483,204
Deferred taxes and taxes saved by write-off of preproduction expense	847,000	2,000,500
Debenture discount amortized	35,430	22,000
	$ 7,230,696	$ 6,217,448
Proceeds from sale of capital stock	214,500	46,500
Net proceeds from issue of long-term liabilities	848,793	—
Received on investments	19,931	5,567
Proceeds from sale of equipment	49,743	8,541
	$ 8,363,663	$ 6,278,056
APPLICATION OF FUNDS:		
Sinking fund payments	$ 402,000	$ —
Investments—		
Deferred deposits	130,304	—
Employee agreements	27,122	—
Refundable tax	56,767	259,000
Shares of other companies	250,000	100,100
Purchase of capital assets	4,261,027	1,321,148
Dividends	2,363,125	2,348,225
	$ 7,490,345	$ 4,028,473
INCREASE IN WORKING CAPITAL	$ 873,318	$ 2,249,583

The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements

FEBRUARY 29, 1968

1. LONG-TERM LIABILITIES

Long-term liabilities consist of the following:	1968	1967
6% Convertible Sinking Fund Debentures, Series A, (due October 1, 1975)	$ 3,596,000	$ 4,000,000
7¼ % Mortgages on Employee Housing Complexes, repayable over 25 years by equal monthly instalments, including interest and taxes	409,034	—
7% Bank Loans, secured, repayable by September, 1970, by equal monthly instalments of principal plus accrued interest	439,759	—
	$ 4,444,793	$ 4,000,000

The 6% Convertible Sinking Fund Debentures, Series A, are secured by a floating charge on all assets of the Company. During the year, the Company purchased, on the open market, $320,000 principal value of debentures at a cost of $315,-650. Outstanding debentures, having a principal value of $2,000 were converted to Common shares at $8.00 per share (250 Common shares issued).

Subsequent to the balance sheet date, the Company called the remaining debentures for redemption on April 5, 1968, the redemption price being 105% of the principal value plus accrued interest. Debentures to the value of $5,000 were converted to 625 Common shares at $8.00 per share and the remaining debentures were redeemed for cash.

2. INVESTMENTS

Investments consist of the following:

	Cost	
	1968	1967
Wholly-owned subsidiary company—		
Highland Valley Smelting & Refining Co. Ltd.—		
500 Common shares	$ 500	$ 500
Advances	200	200
	$ 700	$ 700
Shares in subsidiary company—		
Bethex Explorations Ltd. (N.P.L.) ("Bethex")—		
Common—900,000 shares (1967 - 450,000 shares) (market value 1968 - $495,000; 1967 - $292,500)	$ 325,001	$ 100,001
Common B—200,000 shares	100,000	100,000
	$ 425,001	$ 200,001
Shares in other companies—		
Mariner Mines Limited ("Mariner")—		
75,000 shares (market value 1968 - $12,750; 1967 - $26,250)	$ 75,000	$ 75,000
Ionarc Smelters Ltd. (N.P.L.)—		
50,000 shares	$ 25,000	$ —
Property held for resale	$ 4,800	$ 21,967
Agreements receivable - employees	$ 109,450	$ 84,593
Village of Ashcroft debentures	$ 7,000	$ 7,500
Deferred expenses—		
Rental deposits on equipment	$ 120,000	$ —
Employee pension deposits	10,304	—
	$ 130,304	$ —
Special corporation refundable tax	$ 315,767	$ 259,000
	$ 1,093,022	$ 648,761

Seventy per cent of the shares in Mariner Mines Limited are presently held in trust. Mariner has the right until March 31, 1969, to acquire these shares at a price equal to the cost to Bethlehem Copper Corporation Ltd. ("Bethlehem") amounting to $52,000.

Highland Valley Smelting & Refining Co. Ltd. and Ionarc Smelters Ltd. (N.P.L.) are private companies and their shares do not have a market value.

The 200,000 Common B shares of Bethex (being all the authorized Common B shares) confer the right to elect a majority of the Directors. These shares have no quoted market value.

While Bethlehem controls Bethex through the ownership of the Common B shares, the financial statements of Bethex have not been consolidated with those of Bethlehem because as at February 29, 1968, it owned only 1,100,000 (42%) of the 2,612,250 issued shares of Bethex, and the operations of Bethex have been limited to the exploration of mining properties. During its fiscal year ended February 29, 1968, Bethex charged to deficit, expenditures relating to abandoned mining properties and losses on disposals of investments and capital assets. Bethlehem's proportion of these write-offs is $24,902.

Highland Valley Smelting & Refining Co. Ltd. is not an operating company and its statements are not consolidated with Bethlehem.

3. DEPRECIATION AND DEFERRED TAXES

Mining equipment, most of which was acquired during the year, has been depreciated on an hours-of-use basis to spread the cost over its useful life. Depreciation on other capital assets has been provided at the rate of 5% of cost. Bethlehem's application for an additional tax free period with respect to the Jersey mine has been denied by the Department of National Revenue. Although the Company intends to appeal this decision, provision has been made for all income taxes which may be assessed to February 29, 1968.

The Company's policy has been to claim capital cost and other allowances in such amounts as to obtain maximum income tax benefits and to provide only for income taxes currently payable. In 1968, the Company changed its method of accounting for income taxes and has provided for full income tax liability on the basis of recorded income, but will continue to conserve cash by claiming maximum tax benefits from capital cost allowance. As a result of this change in method the portion of the 1968 provision for income tax which is currently payable amounts to $2,818,000. The difference of $847,000 which has been deferred is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the balance sheet as Deferred Income Taxes. The accumulated amount by which income taxes have been reduced in this and prior years is $1,767,500.

In order to provide a proper comparison under the new accounting method, the financial statements for the fiscal year ended February 28, 1967, have been restated to reflect the above change to deferred tax accounting. The effect of this restatement was to decrease net income for the 1967 fiscal year by an amount equal to the deferred tax provision of $920,500, and to decrease the balance of retained earnings at the end of that year by a like amount.

The $1,080,000 of income taxes saved by writing off preproduction expense in 1967 has been included for comparative purposes in the restated 1967 statement of income.

4. SHARE OPTIONS

The following options to officers and employees to purchase shares of the Company were outstanding as at February 29, 1968:

20,000 shares at $5.50 per share up to December 31, 1969
11,000 shares at $5.50 per share up to December 31, 1970
3,000 shares at $5.50 per share up to December 31, 1971
12,000 shares at $5.50 per share up to December 31, 1972

Options for 39,000 shares were exercised during the year ended February 29, 1968, for total cash consideration of $214,500.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors' fees paid during the year ended February 29, 1968, totalled $30,000. Senior officers, as defined by the B.C. Securities Act, include directors, officers and the five highest paid employees. In addition to directors' fees, direct remuneration to such senior officers, which includes two directors, totalled $156,700 for the year ended February 29, 1968. Bethex Explorations Ltd. (N.P.L.) paid $9,500 during the year ended February 29, 1968, to two of its officers who are also officers and directors of Bethlehem.

6. CURRENCY CONVERSION

The Company's U.S. Funds bank account was converted into Canadian Funds at the rate of exchange on the balance sheet date. Accounts receivable in U.S. Funds were converted at the rate received when the amounts were realized subsequent to the balance sheet date.

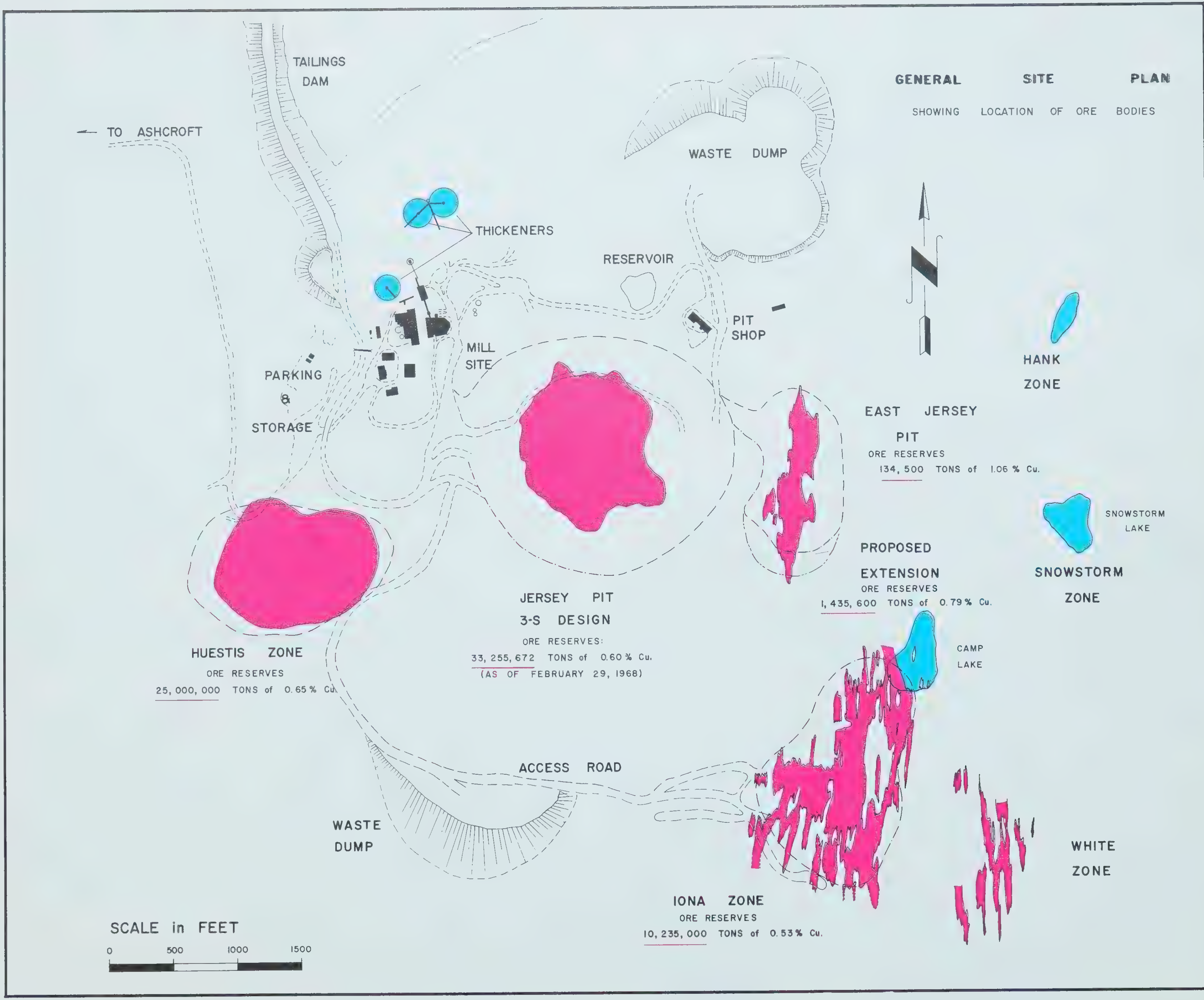
7. COMMITMENTS

Bethlehem is obligated to exercise options to acquire common shares of Bethex to a minimum value of $100,000 in each of the five years February 28, 1967 - 1971. If for any reason Bethlehem fails in this obligation, its right to elect a majority of the Directors of Bethex will be nullified. The obligations for the two years ended February 29, 1968 have been fulfilled.

The Company has entered into 36-month lease rental agreements (with option to purchase) on the twelve 50-ton ore trucks used in its mining operations. The Company's remaining payments to the expiry date of the leases on September 16, 1970, total $1,050,067.

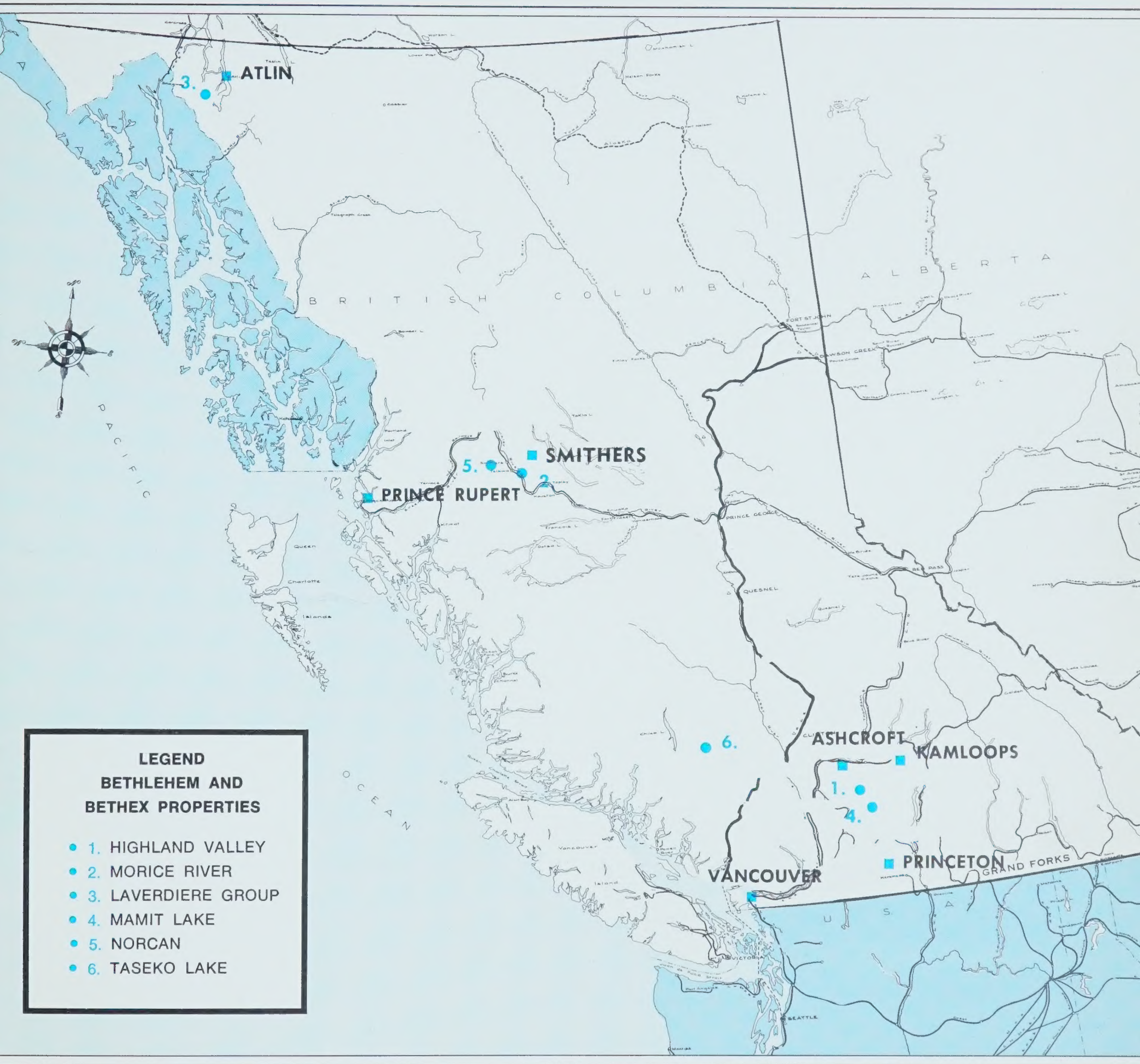
Summary of Operations since Commencement of Production

	Three months Ended February 28, 1963	YEARS ENDED February 29, 1964	February 28, 1965	February 28, 1966	February 28, 1967	February 29, 1968
Net operating income	$ 487,231	$ 3,311,144	$ 3,571,857	$ 3,114,797	$ 6,933,628	$10,408,226
Investment income	5,581	7,755	8,441	11,342	163,315	256,657
	492,812	3,318,899	3,580,298	3,126,139	7,096,943	10,664,883
Depreciation	—	237,115	312,773	317,568	483,204	841,605
Exploration	—	—	—	—	134,222	390,760
Interest on funded debt	79,505	259,220	135,226	30,851	240,273	229,777
Bond discount and premium	—	—	—	9,167	22,000	31,080
Taxes on income, including deferred	—	—	—	—	1,425,500	3,665,000
	79,505	496,335	447,999	357,586	2,305,199	5,158,222
Net income	$ 413,307	$ 2,822,564	$ 3,132,299	$ 2,768,553	$ 4,791,744	$ 5,506,661
Income per share	10c	66c	60c	53c	92c	$ 1.05
Shares issued	4,215,000	4,270,500	5,201,000	5,211,500	5,222,000	5,261,250
Dry tons milled	231,284	1,265,988	1,444,696	2,007,883	3,279,073	4,136,167
Average tons per calendar day	2,569	3,459	3,958	5,501	8,984	11,301
Average heads - %	.98	1.06	.89	.69	.60	.58
Pounds of copper produced	4,085,854	25,023,892	23,730,516	23,118,998	32,255,986	40,143,527
Average price per lb. of copper - U.S. cents	28.44	28.45	31.81	37.06	48.82	49.15


GENERAL SITE PLAN
SHOWING LOCATION OF ORE BODIES
TO ASHCROFT
TAILINGS DAM
THICKENERS
WASTE DUMP
RESERVOIR
PIT SHOP
MILL SITE
PARKING & STORAGE
HANK ZONE
EAST JERSEY PIT
ORE RESERVES
134, 500 TONS of 1.06 % Cu.
SNOWSTORM LAKE
PROPOSED EXTENSION
ORE RESERVES
1, 435, 600 TONS of 0.79 % Cu.
SNOWSTORM ZONE
JERSEY PIT
3-S DESIGN
ORE RESERVES:
33, 255, 672 TONS of 0.60 % Cu.
(AS OF FEBRUARY 29, 1968)
HUESTIS ZONE
ORE RESERVES
25, 000, 000 TONS of 0.65 % Cu.
CAMP LAKE
ACCESS ROAD
WASTE DUMP
WHITE ZONE
IONA ZONE
ORE RESERVES
10, 235, 000 TONS of 0.53 % Cu.
SCALE in FEET
0
500
1000
1500

MAP SHOWING LOCATIONS OF

BETHLEHEM COPPER CORPORATION PROPERTIES
BETHEX EXPLORATIONS PROPERTIES



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REPORT
TO THE
SHAREHOLDERS

June - July - August 1968

Second Quarter of Fiscal Year
Ending February 28, 1969

BETHLEHEM
COPPER CORPORATION
LTD.

1818 - 355 Burrard Street Vancouver 1, B.C.

BETHLEHEM COPPER CORPORATION LTD.

SUMMARY OF OPERATING RESULTS

	Three months ended August 31st 1968	1967	First six months of fiscal year 1968	1967
Mill feed (dry) - average per calendar day ... Tons	14,337	10,771	14,155	10,528
Grade of ore - copper ... %	.60	.55	.60	.57
Recovery ... %	86.02	84.60	84.83	80.64
Average grade of tailings ... %	.083	.086	.091	.105
Concentrate grade ... %	34.34	32.14	35.55	32.42
Copper produced ... Pounds	13,365,068	9,210,832	26,184,061	17,821,249
Average copper price per pound ... U.S. Cents	46.5	44.1	49.2	44.2
MARKET VALUE OF PRODUCTION	$6,607,003	$4,277,377	$13,493,425	$8,301,293
Deduct:				
Production, administration,, transportation and marketing costs	$3,382,376	$2,704,507	$ 6,616,176	$5,339,075
Depreciation, exploration and debenture interest	$ 455,252	$ 336,534	$ 922,864	$ 592,913
	$3,837,628	$3,041,041	$ 7,539,040	$5,931,988
Profit before income and mining taxes	$2,769,375	$1,236,336	$ 5,954,385	$2,369,305
Provision for income and mining taxes	$1,270,451	$ 494,040	$ 2,645,451	$ 946,775
NET INCOME	$1,498,924	$ 742,296	$ 3,308,934	$1,422,530
SHARES ISSUED	5,264,875			
EARNINGS PER SHARE	28.5c	14.1c	62.9c	27.0c

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1968	1967
Funds were applied to:		
Dividends	$1,184,497	$1,048,600
Investments—Bethex Explorations Ltd. (N.P.L.)	100,000	225,000
Granite City Platinum Ltd. (N.P.L.)	6,000	—
Deferred deposits	33,544	—
Purchase of capital assets	866,722	1,774,793
Debenture redemption	3,774,340	260,980
Repayment of long term debt	153,626	—
Special refundable tax	10,040	—
	6,128,769	3,309,373
Funds were provided from:		
Operations	3,308,934	1,422,530
Add expenses not requiring an outlay of funds—		
Depreciation and amortization	709,476	345,726
Deferred taxes	344,296	218,804
	4,362,706	1,987,060
Equipment financing	—	138,739
Refund of special refundable tax	—	107,158
Exercise of employee share options	16,500	126,500
Employee housing repayments	6,918	5,563
Proceeds from disposal of fixed assets	54,375	31,925
	4,440,499	2,396,945
DECREASE IN WORKING CAPITAL	$1,688,270	$ 912,428

WORKING CAPITAL

	As at August 31st 1968	1967
Current assets	$8,727,942	$6,808,778
Current liabilities	5,838,524	4,016,836
WORKING CAPITAL	$2,889,418	$2,791,942

OPERATING RESULTS

The average price at which copper was sold in the second quarter of our fiscal year, which ended on August 31st, was 46.5c U.S. as compared to 44.1c U.S. in the same quarter a year ago. The earnings per share increased from 14.1c in 1967 to 28.5c in 1968. The increase was principally accounted for by increased production from just over 9,000,000 pounds of copper in 1967 to approximately 13,400,000 pounds this year. Throughput has now been stabilized in the range of 14,000 to 14,500 tons of ore per day and the estimated annual production of copper is 50,000,000 pounds.

EXPLORATION - HIGHLAND VALLEY

To the south-west of Bethlehem's mineral claims in Highland Valley and immediately adjacent to them are mineral claims owned by Valley Copper Mines Ltd. (N.P.L.), a private company operated by Cominco Ltd. Indications are that Cominco is developing a substantial ore body on Valley Copper's claims, grading approximately 0.50% Cu. In a special report to shareholders on August 19th, 1968, Bethlehem reported on its diamond drilling program immediately to the north of Cominco's drilling.

Due to the nature of the overburden covering the mineralized rock, drilling progress is slow. We are experimenting with different methods in an effort to speed up drilling. Only about 10% of our initial work program has been completed, and, therefore, it is too early to predict either tonnage or grade of ore. It is hoped that within 4 to 6 weeks enough information will be available so that a special report may be circulated to shareholders.

As previously reported, Bethlehem's subsidiary, Bethex Explorations Ltd., owns 780,000 shares of a total authorized capital of 10,000,000 shares of Valley Copper Mines Ltd. In addition, Bethlehem is entitled to a 2½% royalty payable on the net smelter return, before freight charges, on a large portion of the mineralized area which was drilled by Cominco on the Valley Copper claims. In this connection, please refer to our 13th Annual Report for the year ended February 29th, 1968, under the heading "Tailings Disposal".

DIVIDENDS

The regular quarterly dividend of 12½c per share has been authorized for payment September 19th, 1968.

P. M. REYNOLDS,
President.

September 16th, 1968